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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000077

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SUBJECT: AZERBAIJAN: MEETING WITH BP PRESIDENT JAVANSHIR

REF: BAKU 32

Classified By: Acting DCM Terry Davidson for
Reasons 1.4 (B,D, E)

Summary

¶1. (C): Charge Lu and Energy Officer met with BP President Rashid Javanshir and British Ambassador Dr. Carolyn Browne on February 1. Javanshir reviewed the January 22 meeting in Baku between President Aliyev and BP Head of Exploration and Production (E&P) and Board Member Andy Inglis. Aliyev told Inglis he distrusts Turkey on the Armenia protocol issue, as Turkey initiated its discussions without informing Azerbaijan. Aliyev also stated he was even angrier with the US than Turkey, casting the US as the instigator of Turkish-Armenian rapprochement. Aliyev told Inglis that given his distrust of the Turks, Azerbaijan would not move on cementing a gas transit agreement until after April 24, Armenian Remembrance Day. President Aliyev also expressed displeasure with the fruitless discussions on the Nabucco pipeline. On a positive note, the ACG consortium is close to sanctioning the Chirag field in the ACG field development, although discussions to extend the ACG Production Sharing Agreement past 2024 appear to be on the back burner.

Gas Discussions on Hold until April 24

¶2. (C) In line with comments from other industry observers recently, BP President Janvanshir told us that President Aliyev indicated that Turkey-Azerbaijan gas negotiations are effectively on hold until April 24, Armenian Remembrance Day. (Note: The Armenian caucus in Congress has threatened to push forward a genocide resolution in the U.S. Congress on April 24 if Turkey does not ratify the Turkey-Armenia normalization protocols.) President Aliyev appears to believe that stalling the agreement is his last bit of leverage over Turkey to ensure it does not ratify the peace protocols. End note.) Javanshir reiterated a point often heard in Baku these days - the parties are not that far apart on commercial terms, so the obstacle to concluding the

agreement increasingly appears to be political, not economic.

Javanshir was pleased with the degree of candor the President Aliyev showed in his discussion with Inglis, saying "it's a reflection of our relations." (Note: As BP Azerbaijan's first Azerbaijani president, Javanshir appears to have significantly cemented BP's relationship with the GOAJ. End note.)

Anger at Nabucco Consortium
and EU Continues

13. (C) President Aliyev continues to be angry at the EU and Nabucco promoters for the slow pace of their project. Javanshir told us that he complained, "These are "fruitless discussions, there is no sponsor, and it's not clear who does what."

Aliyev Plans to Take Backseat Until April

14. (C) According to Javanshir, President Aliyev indicated that he did not plan to take an active role in pushing the gas negotiations along in the next couple of months, stating "now others need to be active." Javanshir appears resigned to accepting the impasse until April, but at times expressed his frustration, protesting, "how can you maintain the pace of the (Shah Deniz II) project? At some point, we need a clear decision."

Reflecting on Fall 2009 Gas Negotiations

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15. (C) Javanshir explained, in a somewhat philosophical mode, that "at some point last fall, Azerbaijan lost the chance to close the deal (with Turkey)." Javanshir assessed that Turkey had been profoundly disappointed by Azerbaijan's willingness to use Russia and Iran as leverage in the gas negotiations and parallel discussion on the Turkey-Armenia protocols. Javanshir noted that Turkey blamed Iran and Russia for creating the Nagorno Karabakh quagmire in the first place, and was therefore very disappointed that Baku would suggest it would sell gas to them in lieu of Turkey. Javanshir also noted Ankara's long history of support for Baku on NK issues reinforced the Turkish sense of injury.

"We are Happy with the Turkey Terms"

16. (C) Javanshir indicated that the Shah Deniz consortium had signed off on the current terms offered by Turkey. SOCAR had already made significant concessions, he noted, but the consortium was prepared to live with these. Of course, Javanshir fretted that the consortium is unclear how long the current terms are on offer, or whether they will remain on offer after the end of April. He noted that SOCAR President Rovnag Abdullayev had told him, "I can sign within 5 minutes," presumably once the political jam is broken. The British delegation noted the need to continue to carry out planning for April, because if all work ceases until then, the agreement will be inevitably delayed.

BP Meetings in London

17. (C) Javanshir reported on upcoming BP meetings in London. Turkish Energy Minister Yildiz, he stated, would likely travel to London for meetings with senior BP executives, (and the UK delegation noted, bilateral meetings as well) on February 23. Javanshir indicated he would be present if the meetings move ahead. He views the meetings as a positive opportunity to continue the discussions, but noted that Yildiz was characteristically over-optimistic about the progress on the transit negotiations.

BP: No Credible Alternative to
Turkish Transit

¶18. (C) Energy Officer questioned Javanshir about BP's "Plan B" if Turkish gas transit were not resolved. Javanshir dismissed any alternatives to Turkish gas transit, stating, "We don't see a credible second option." (Note: Seemingly preparing an Azerbaijani "Plan B," SOCAR and GOAJ officials have been busy in recent months inking small gas deals and MOUs with a variety of regional actors, including Russia, Iran, Bulgaria, and conducting discussions with Romania and Greece. End note.) Javanshir laid out the key factors: Shah Deniz would bring 16 billion cubic meters (bcm) or more of natural gas to market, requiring the Turkey-European option to absorb such large quantities of gas. He noted the current pipeline to Russia could not handle sufficient volumes to sell much Shah Deniz gas north. Javanshir also stated that President Aliyev "won't commit our future to Russia." He further opined that the Russians likely need new pipeline systems on the other side of the border to accept large volumes of gas. Finally, he dismissed Statoil's on-going feasibility study of a possible compressed natural gas (CNG) route across the Black Sea. (Note: Statoil is a fellow Shah Deniz consortium member with BP. End note.) Javanshir bluntly stated, "Statoil is not being helpful."

BP Confident Turkish
Domestic Gas Demand Will Rebound

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¶19. (C) Some analysts have expressed concern that domestic Turkish gas demand, which plummeted in the wake of the financial crisis, has imperiled plans to transit Caspian gas to Europe. Javanshir does not agree. He told us that he believed the Turkish market would need Shah Deniz phase II gas by the time it would be on-line. He assessed that by 2016-2017, Turkey's gas demand will have rebounded from the financial crisis, and they will have a legitimate commercial need for gas off-take from the Southern Corridor.

Will More LNG in Europe
Imperil Caspian Gas Development?

¶10. (C) The growth in shale gas in the U.S., and the consequent greater availability of LNG (liquefied natural gas) shipments for the European market, appears to trouble Javanshir more. He asked, somewhat rhetorically, "will LNG emerge as a potential competitor to Caspian gas for Europe?"

ACG Oil Field Progress:
Chirag Hopefully Soon to Sanction

¶11. (C) On a positive note, the Azerbaijan International Oil Consortium (AIOC), the energy consortium which developed the ACG (Azeri Chirag Gunashli) field, is close to sanctioning development of the Chirag field. Javanshir told us that SOCAR had approved the work program and budget for the Chirag field during Inglis' visit, a positive sign that the GOAJ wants this critical expansion project sanctioned. Javanshir noted some SOCAR opposition to the project, which he dismissed as "the old Soviet mentality" still present in some parts of SOCAR. He explained, "the technical team in SOCAR is disconnected from economics," adding that they genuinely do not see obtaining positive economics for an energy project as "their problem." Javanshir was hopeful that by February, the AIOC partners will approve the Chirag expansion, followed by final SOCAR sanctioning.

¶12. (C) However, Javanshir seconded recent remarks by Statoil that discussions to extend the ACG Production Sharing

Agreement (PSA) past 2024 appear to be on the GOAJ's back burner for now. Javanshir noted, "There are other things that SOCAR wants to accomplish first." He noted the potential exploitation of non-associated gas (NAG) in the ACG field was at stake. President Aliyev generally supports the project he noted, but BP had to make clear that, "if you want the NAG, you must extend the PSA for the associated oil." Javanshir expressed confidence that the AIOC consortium would eventually win this round. However, he noted that early agreement to the PSA extension (and subsequent exploitation of the ACG NAG) "would unlock substantially more reserves."

BTC Pipeline

¶13. (C) Javanshir also discussed the performance of BIL, (BOTAS International Limited), the BOTAS subsidiary which operates the Turkish portion of the BTC pipeline. He indicated that BIL's poor financial and security performance continued to be a source of tension within the BTC consortium. He also highlighted some progress, explaining that Turkey had deployed "strong security forces" along more areas of the BTC pipeline, and appointed a new head of the gendarme last year, "a major breakthrough." Finally, he noted that BP had constructed a "model," highly fortified pumping station, which he hoped Turkey would now move to replicate on additional portions of the pipeline.

Iran and Alov Field

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¶14. (C) Javanshir also reflected on the status of the Alov field, from which Iranian naval vessels threatened and chased BP geophysical vessels in 2001. He indicated that Azerbaijan and Iran continued their discussions on the ownership status of the field, but there was "no dialogue" between BP and the GOAJ on the Alov field at present. "I'm quite skeptical of a solution," he added. Javanshir added that as BP was quite busy otherwise, he wouldn't mind if the status quo continued for a few more years.

Comment

¶15. (C) Industry watchers in Baku note that after the fall's frenetic gas negotiating sessions (often fruitless, but at least SOCAR and BOTAS were sitting down at the table), now gas discussions seem to have come to a true standstill. Momentum on the gas discussions appears to have moved firmly out of the commercial arena, and into the political arena. Meanwhile, a public battle between SOCAR and BOTAS about the status of the gas discussions appears to have escalated in the local media during the last few days. Absent a significant political breakthrough, we wait for April.

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